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SUBJECT: QUESTIONABLE PROGRESS ON SINO-TURKMENISTAN GAS  
PIPELINE DEAL

SUMMARY  
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1. (SBU) An industry contact questions recent reports that China has approved construction of a pipeline to carry gas imported from Turkmenistan -- a decision, that if carried through, would carry forward a deal announced last April by the presidents of both countries for gas sales. Separately, the president of China National Petroleum Company (CNPC) International told us in August that his organization was still working on terms for a gas sale, a situation complicated by the "overpromising" of Turkmenistan's gas resources by President Niyazov. END SUMMARY

PIPELINE SERVICES EXECUTIVE: APPROVAL NOT YET GIVEN  
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2. (U) A Dow Jones Newswire report from September 27 quoted an unnamed source as stating that China's National Development and Reform Commission (NDRC) has issued final approval for construction of a pipeline that would carry natural gas imported from Turkmenistan via western China to Guangzhou and other cities in southeast China. The report further stated that the pipeline would be able to carry some 30 billion cubic meters of Turkmen gas annually, with construction costs in the tens of billions of dollars.

3. (SBU) A senior executive at a Chinese oil pipeline services company questioned the veracity of the report and told us that a final deal on the supply of natural gas has yet to be reached. Projects of this sort typically require lengthy negotiations once governments have made an agreement in principal. In the case of China and Turkmenistan, the two countries' presidents used an April 2006 state visit to China as the occasion to sign what was termed a general agreement to sell natural gas to China and build a pipeline to transport it.

SALES DEAL A PRECONDITION, AND THAT MAY BE PENDING TOO  
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4. (SBU) A senior executive with the China National Oil Exploration and Development Corporation (CNODC), the CNPC subsidiary conducting the negotiations, confirmed that a deal has not yet been reached on the supply of natural gas. CNODC is hopeful a deal can be reached by the end of October. NDRC Chairman Ma Kai will travel to Turkmenistan to participate in the signing ceremony if a deal is concluded, according to the CNODC executive.

15. (SBU) Wang Dongjin, President of CNPC International, told us in early August that the company was still negotiating a final deal for the supply of Turkmen natural gas. He described Turkmenistan President Saparmurat Niyazov as "overpromising" natural gas to potential customers, including China. Niyazov is seeking the best deal possible and is using opposing bids bluntly against each other. CNPC recognizes this tactic and is structuring its bid accordingly, said Wang. CNPC was at the time of our the August conversation still evaluating the best route for the pipeline through Central Asia were a deal to be reached, according to Wang's remarks.

16. (SBU) Wang went on to say that CNPC's main competition for Turkmen natural gas is the Russian energy giant Gazprom. CNPC is emphasizing in its negotiations that a pipeline linking Turkmenistan with China rather than Russia would provide Ashgabat another outlet for its gas as well as leverage over Gazprom. The existing Central Asia Center (CAC) pipeline - the primary pipeline transporting Turkmen natural gas to Russia -- is already fully contracted. CNPC is thus framing a Sino-Turkmen deal as a "win-win" for the two countries, offering Ashgabat greater bargaining power when renegotiating CAC pipeline pricing while giving Beijing natural gas to help China diversify its energy mix away from coal.

#### PROGRESS ON WEST-EAST PIPELINE

17. (SBU) CNPC's Wang also said that if a Sino-Turkmen deal is reached, it would make sense to link the pipeline with China's West-East pipeline that runs from Xinjiang to Shanghai. The new pipeline would then conceivably veer to

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the southeast to provide natural gas to Guangzhou and other cities in the region. Liu Wei, a senior official in the Xinjiang Development Planning Commission's Department of Energy, recently told us that CNPC, while constructing the West-East pipeline, conducted the survey and basic preparatory work necessary to facilitate the construction of a second pipeline. These efforts, however, were independent of a possible Sino-Turkmen deal and were conducted based on existing plans by local and national economic planners to move energy resources, including natural gas, from Xinjiang to other parts of China. Liu stated that as many as four pipelines radiating from Xinjiang are currently in planning or in the early stages of development.